

Message Text

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FM SECSTATE WASHDC

TO USMISSION USUN NEW YORK

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FOR MOUSKY

FOLLOWING TEL SENT ACTION SECSTATE FROM MANILA APRIL 27:

QUOTE LIMITED OFFICIAL USE MANILA 6327

USADB

FOR NAC AGENCIES

PASS TREASURY FOR ZINMAN

E. O. 11652: ADS, DECLAS 12/31/77

TAGS: EAID, EFIN

SUBJECT: TECHNICAL ASSISTANCE OPERATIONS

SUMMARY: ADB MANAGEMENT HAS ISSUED WORKING PAPER WHICH
REVIEWS BANK'S TECHNICAL ASSISTANCE (TA) OPERATIONS
AND PROPOSES A NUMBER OF RECOMMENDATIONS FOR CHANGES IN
FUTURE TA OPERATIONS. NAC GUIDANCE IS REQUESTED. END
SUMMARY.

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1. ADB WORKING PAPER 4-77 ON ABOVE SUBJECT WAS POUCHED
APRIL 26, 1977 AND WILL BE CONSIDERED BY BOARD OF
DIRECTORS MAY 10.

2. TO DATE, ADB'S PROJECT PREPARATION TA HAS BEEN
FOCUSED ON PROJECTS WHICH ARE EXPECTED TO RECEIVE SUB-
SEQUENT INVESTMENT FINANCING FROM BANK. BANK NOW

CONSIDERS THAT IT MIGHT BE MORE WILLING TO PROVIDE TA FOR PROJECTS WHICH MAY BE LIKELY TO BE FOLLOWED UP BY INVESTMENT FINANCING FROM OTHER AID DONORS, EITHER EXCLUSIVELY OR JOINTLY WITH BANK. SUCH ATTITUDE IS EXPECTED TO HELP INDUCE ADDITIONAL FINANCIAL RESOURCE FLOWS INTO DMCS FROM BILATERAL AND OTHER MULTILATERAL SOURCES WHICH MAY NOT ALWAYS HAVE FACILITIES FOR PROJECT IDENTIFICATION, PREPARATION AND APPRAISAL AND FOR OVERSEEING IMPLEMENTATION (E.G., IFAD, OPEC, AND EEC).

3. IN THE PAST, BANK HAS PROVIDED TA FOR INSTITUTION-BUILDING MOSTLY TO THOSE ENTITIES RECEIVING OR EXPECTED TO RECEIVE BANK LOANS. BANK SUGGEST DESIRABILITY, WITHIN REASONABLE LIMITS, OF CONSIDERING PROVISION OF THIS TYPE OF ASSISTANCE TO IMPROVE TECHNICAL, MANAGERIAL AND ADMINISTRATIVE CAPABILITIES OF LOCAL AUTHORITIES (INCLUDING GOVERNMENT DEPARTMENTS AND BUREAUS) IN CHARGE OF PARTICULAR SECTORS OR AREAS, ALTHOUGH NOT DIRECTLY LINKED TO BANK PROJECT IMPLEMENTATION. IN ADDITION, BANK CONSIDERS GIVING INCREASING ATTENTION TO PROVISION OF TA, ON CASE-BY-CASE BASIS, TO STRENGTHEN NATIONAL PLANNING AND PROJECT IMPLEMENTATION MONITORING MACHINERIES. BANK BELIEVES IT MIGHT ALSO PAY MORE ATTENTION IN COMING YEARS TO ADVISORY SERVICES THROUGH SECTORAL OR PROBLEM-ORIENTED STUDIES WHICH MAY NOT RELATE TO SPECIFIC DEVELOPMENT PROJECTS AND COULD BENEFIT ONE OR MORE DMCS. IT IS ALSO PROPOSED THAT BANK ENDEAVOR TO PROMOTE TECHNICAL COOPERATION AMONG LIMITED OFFICIAL USE

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ITS DMCS THROUGH ITS TA ACTIVITIES.

4. FOLLOWING PROPOSALS, BASED LARGELY UPON FOREGOING CONSIDERATIONS, WILL BE EFFECTIVE UPON BOARD APPROVAL IN FUTURE TA OPERATIONS:

A. PROJECT PREPARATION TA FOR FEASIBILITY STUDIES INVOLVING \$350,000 OR LESS MAY BE FINANCED INITIALLY ON GRANT BASIS, PROVIDED THAT, IF BANK LOAN RESULTS, AMOUNT EXCEEDING PRESCRIBED LIMIT OF GRANT (WHICH HAS BEEN \$100,000 SINCE 1972 BUT NOW PROPOSED TO BE RAISED TO \$150,000 TO OFFSET EFFECT OF INFLATION) WILL BE CONVERTED TO SUBSEQUENT LOAN. IF SUCH TA EXCEEDS \$350,000, IT WILL BE FINANCED BY COMBINATION OF GRANT AND LOAN, WITH GRANT PORTION OF \$150,000 AND REMAINDER FINANCED AS LOAN.

B. TA FOR DETAILED ENGINEERING MAY BE FINANCED BY LOAN SEPARATE FROM CONSTRUCTION LOAN FROM SAME PROJECT.

IF SUCH TA ALSO INCLUDES PREPARATION OF FEASIBILITY STUDY, UP TO \$150,000 OF LATTER WILL BE GRANT FINANCED. LOAN ELEMENTS IN BOTH (A) AND (B) WILL CARRY TEN-YEAR AMORTIZATION, INCLUDING TWO YEARS GRACE, WHETHER FINANCED FROM ORDINARY CAPITAL OR SPECIAL FUNDS RESOURCES. PRESENT POLICY OF NOT LEVYING COMMITMENT CHARGE ON TA LOANS MADE FROM ORDINARY RESOURCES WILL CONTINUE.

C. BANK MAY CONSIDER FINANCING ON LOAN BASIS A TA PROGRAM FOR PREPARATION OF A NUMBER OF PROJECTS WHICH NEED NOT BE CONFINED TO A SPECIFIC SECTOR. FOLLOWING BOARD APPROVAL OF SUCH TA PROGRAM LOAN, EACH SUB-PROJECT WILL SUBSEQUENTLY BE APPROVED BY PRESIDENT, WITH BRIEF INFORMATION PAPER TO BOARD FOR EACH APPROVAL. SUCH LOANS MAY HAVE TEN YEARS AMORTIZATION AND TWO YEARS GRACE, WITH NO COMMITMENT CHARGE.
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D. BANK MAY CONSIDER RETROACTIVE FINANCING OF CONSULTANT SERVICES FOR FEASIBILITY STUDY (INCLUDING \$150,000 GRANT LIMITATION) AND DETAILED ENGINEERING IF: (I) SPECIFIC REQUEST IS MADE BY BORROWER BEFORE SERVICES ARE CONTRACTED; (II) PRIOR APPROVAL OF BOARD OF DIRECTORS IS OBTAINED BEFORE BANK INDICATES TO PROSPECTIVE BORROWER WILLINGNESS TO CONSIDER SUCH FINANCING; (III) PROJECT IS PRIMA FACIE VIABLE; (IV) CONSULTANTS ARE SELECTED ACCORDING TO BANK'S GUIDELINES AND TERMS OF REFERENCE ARE AGREED BY BANK; (V) WILLINGNESS TO CONSIDER SUCH FINANCING SHOULD NOT MEAN COMMITMENT FOR FINANCING OF EITHER THE CONSULTANT SERVICES OR ANY OTHER PART OF PROJECT: AND (VI) WHERE BOTH FEASIBILITY STUDY AND DETAILED ENGINEERING ARE INVOLVED, BANK AND BORROWER SHOULD BE SATISFIED AS TO PROJECT VIABILITY AFTER COMPLETION OF FEASIBILITY STUDY AND BEFORE STARTING DETAILED ENGINEERING. PREVIOUSLY, RETROACTIVE FINANCING HAS BEEN RESTRICTED TO VERY EXCEPTIONAL CASES AND LACKED CLEARLY-ENUNCIATED GUIDELINES. IF SUCH FINANCING INVOLVES FEASIBILITY STUDY, GRANT UP TO \$150,000 WILL BE PROVIDED IN CONJUNCTION WITH CORRESPONDING CONSTRUCTION LOAN.

E. IN CASE TA GRANT FROM BANK FOR PROJECT PREPARATION RESULTS IN INVESTMENT FINANCING FROM EXTERNAL AID SOURCES OTHER THAN ADB, BANK SHOULD IN PRINCIPLE SEEK REIMBURSEMENT OF COST OF TA PROVIDED BY IT. WHEN CO-FINANCING IS ARRANGED FOR FOLLOW-UP INVESTMENT, BANK'S NORMAL PRACTICE OF CONVERTING INITIAL GRANT ABOVE PRESCRIBED LIMIT TO BANK LOAN WILL BE FOLLOWED.

F. TA FOR PROJECT IMPLEMENTATION IS USUALLY FINANCED AS PART OF LOAN FOR THAT PROJECT. HOWEVER, ON CASE-BY-CASE BASIS, WHERE TA COVERS MUCH LARGER FIELD THAN STRICTLY RELEVANT TO PARTICULAR BANK LIMITED OFFICIAL USE

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PROJECT AND/OR BENEFICIARY ENTITY IS NEW AND FINANCIALLY WEAK, SUCH ASSISTANCE MAY BE PROVIDED AS GRANT.

G. WHEN LOCAL CONSULTANTS ARE ENGAGED FOLLOWING BANK'S NORMAL SELECTION PROCEDURES, BANK MAY FINANCE CONSULTANT SERVICES ON SAME BASIS AS IF FOREIGN CONSULTING FIRM HAD BEEN SUCCESSFUL. BANK CONSIDERS THIS PROPOSAL TO BE CONSISTENT WITH ITS 1976 DECISION TO APPLY UNIFORM PERCENTAGE OF FINANCING FOR FOREIGN AND LOCAL SUPPLIES AND CONTRACTORS WHERE LATTER SUCCEEDED IN COURSE OF EFFECTIVE INTERNATIONAL COMPETITIVE BIDDING. (SEE DOC. R70-76, REVISION 1, FINAL, DATED OCTOBER 14, 1976 ENTITLED DOMESTIC PROCUREMENT FOR BANK-FINANCED PROJECTS). BANK MAY PROVIDE, ON CASE-BY-CASE BASIS, FOREIGN EXCHANGE FINANCING OF CERTAIN LOCAL CURRENCY EXPENDITURES, WHICH SHOULD BE JUSTIFIED ON BASIS OF (I) SAME COUNTRY CONSIDERATIONS SET FORTH IN BANK POLICY PAPER FOR LOCAL COST FINANCING OF LENDING OPERATIONS (R65-74, REVISION 1, FINAL, DATED JULY 16, 1974), (II) FINANCIAL CAPABILITY OF BENEFICIARY, AND (III) SHARE OF LOCAL CURRENCY EXPENDITURES OF TA PROJECT. AMOUNT OF LOCAL EXPENDITURES FINANCING WILL BE RESTRICTED TO TEN PERCENT OF AMOUNT OF ANY ONE TA GRANT BY BANK.

H. AMOUNT OF AN INDIVIDUAL TA WHICH BOARD OF DIRECTORS HAS AUTHORIZED PRESIDENT TO APPROVE SHOULD BE INCREASED FROM \$50,000 TO \$100,000 IN VIEW OF SIGNIFICANT INCREASES IN COST OF CONSULTANT SERVICES SINCE 1972, PROVIDED SUCH ASSISTANCE DOES NOT INVOLVE ANY SIGNIFICANT DEPARTURE FROM BANK'S TA POLICIES OR ANY UNUSUAL OBLIGATIONS FOR BANK AND RECIPIENT.

5. NAC GUIDANCE ON PROPOSED CHANGES IN BANK'S TA OPERATION IS REQUESTED. STULL UNQUOTE VANCE

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Message Attributes

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